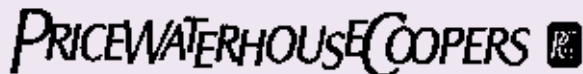




Report on Audits of Combined Financial Statements and Supplemental Information

AS OF JUNE 30, 2002, AND FOR THE YEAR THEN ENDED



Report of Independent Accountants

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To the Teachers' Retirement Board
California State Teachers' Retirement System

In our opinion, based upon our audit and the report of other auditors, the accompanying basic financial statements present fairly, in all material respects, the combined fiduciary net assets of the California State Teachers' Retirement System (System), a component unit of the State of California, as of June 30, 2002, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the System's Voluntary Investment Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements is based solely on the report of the other auditors. We previously audited and reported on the financial statements of the System for the year ended June 30, 2001, the reporting entity totals of which are included for comparative purposes only. We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the System has an unfunded obligation as determined by an estimate of the pension benefit obligation provided by the System's actuary as of June 30, 2001. Based upon the 2001 actuarial valuation, the future annual contributions required under the California State Education Code appear to be sufficient to fund the System's unfunded obligation by approximately 2030.

As discussed in Note 2 to the basic financial statements, the System has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, for the year ended June 30, 2002.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have

applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules I and II is required under GASB Statement No. 25, *Financial Reporting For Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included in Schedules III through VII is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion and based on the report of other auditors, is fairly stated, in all material respects, in relation to the financial statements taken as a whole from which it has been derived.

A handwritten signature in black ink, appearing to read "Patricia A. Cooper, CPA". The signature is fluid and cursive, with a large initial "P" and "C".

September 23, 2002



California State Teachers' Retirement System

Management's Discussion and Analysis

As of June 30, 2002

This Management Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2002. The MD&A is designed to focus on the current year's activities, resulting changes and currently known facts. We encourage you to read it in conjunction with the System's financial statements, notes to the financial statements and the Chief Executive Officer's Letter of Transmittal included in the Introduction section of the of the System's 2002 Comprehensive Annual Financial Report.

The System is primarily responsible for administering retirement, disability, survivor and health benefits, as well as administering a supplemental retirement savings plan for California public school teachers and certain other employees of the state's public school system. The System is comprised of a total of four fiduciary funds:

1. State Teachers' Retirement Plan (STRP)
2. Voluntary Investment Program (VIP)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Replacement Benefits Program Fund (TRBPF)

FINANCIAL HIGHLIGHTS

- €# Net assets decreased by \$6.4 billion or 6% to \$96.8 billion.
- €# Net investment losses decreased by \$3.9 billion or 38% to \$6.3 billion in fiscal 2002 from a loss of \$10.2 billion in fiscal 2001. Total investments, excluding securities lending collateral, at June 30, 2002, decreased by \$5.9 billion or 5.8% to \$96.5 billion.
- €# As of June 30, 2001, the most recent actuarial valuation, the System's Defined Benefit Program was funded at 98%, compared to a funding level of 110% as of June 30, 2000.
- €# Total contributions, as adjusted for timing differences, increased by \$124 million or 2.7% to \$4.7 billion.
- €# Benefit payments increased by \$569 million or 14.4% to \$4.5 billion.
- €# Refund of contributions decreased by \$3.2 million or 4.0% to \$76.6 million.
- €# The Medicare Premium Payment Program began paying benefits on July 1, 2001 and premiums paid to members were \$21.5 million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of the following components: (1) fund financial statements (2) notes to the financial statements (3) required supplemental information and (4) other supplementary information.

Fund financial statements. The combined statements of fiduciary net assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System's financial position. The combined statements of changes in fiduciary net assets shows how the System's net assets changed during the fiscal year.

California State Teachers' Retirement System

Management's Discussion and Analysis

As of June 30, 2002

Notes to the financial statements. The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below.

- €# Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System.
- €# Note 2 provides a summary of significant accounting policies, including the basis of accounting for the System, management's use of estimates, investment accounting policies, information regarding the implementation of new accounting pronouncements, and other significant accounting policies.
- €# Note 3 describes investments, including investment risk categorizations, investing authority and other significant investment information.
- €# Note 4 generally describes potential contingencies of the System.
- €# Note 5 provides a summary of significant commitments incurred by the System.

Required supplemental information. The required supplemental information consists of two schedules and related notes on the defined benefit pension plans' funding progress and history of contributions from employers and other contributing entities. These schedules provide historical information that assists in understanding the funded status of the System over time.

Other supplementary information. Included in the other supplementary information is detailed information on administrative expenses, investment expenses and consultant and professional services expenses.

FINANCIAL ANALYSIS

State Teachers' Retirement Plan (STRP). The State Teachers' Retirement Plan is a defined benefit pension plan which provides for retirement, disability and survivor benefits. The STRP is comprised of three programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program and is accounted for in a single fund. The STRP net assets decreased 6.2% during the fiscal year, from \$103 billion in 2001 to \$97 billion as of June 30, 2002.

STRP benefits are funded by employer, member and state contributions, and by investment earnings. Total additions decreased for the fiscal year ending June 30, 2002. Member contributions increased by \$29 million or 1.6% while employer contributions decreased by \$159 million or 8.4%. However after adjusting for timing differences, actual member contributions increased by \$38 million or 2.1% while employer contributions increased by \$102 million or 5.8%. The difference in percentage increases, as adjusted, is due to the recognition of revenue from member accounts receivable for service credit purchases and redeposits and employer contributions of \$19 million that were deposited into the Teachers' Health Benefits Fund. State contributions decreased by \$30 million or 3.2% to \$916 million. The decrease in State contributions resulted from a statutory reduction of the contribution rate. The STRP experienced a net investment loss of \$6.3 billion in fiscal 2002 compared with a \$10.2 billion loss in fiscal 2001. This second year of net investment losses reflect the continued downturn in the global equity markets in fiscal 2002.



California State Teachers' Retirement System

Management's Discussion and Analysis

As of June 30, 2002

Deductions for the year totaled \$4.6 billion. Enhanced retirement benefits along with growth in the number of new retirees increased benefit payments to \$4.5 billion, an increase of \$547 million or 13.8% over the prior year. Refund of contributions in fiscal 2002 decreased \$3.5 million or 4.5% to \$ 74 million. Administrative expenses in fiscal 2002 increased \$9.2 million or 17.0% to \$64 million.

STRP investments, excluding securities lending collateral, decreased by \$6.0 billion or 5.8% to \$96.4 billion at June 30, 2002. At June 30, 2002, STRP held \$57.2 billion in U.S. and international equity securities, a decrease of \$4.2 billion or 6.9% from fiscal 2001. At June 30, 2002, STRP also held \$27.4 billion in U.S. debt securities, a decrease of \$1.5 billion or 5.1% from fiscal 2001. Remaining holdings in alternative investments, real estate and short-term investments were \$11.8 billion at June 30, 2002, a decrease of \$0.3 billion or 2.2% from fiscal 2001. Net depreciation on investments decreased by \$4.1 billion or 30.4% to \$9.4 billion in fiscal 2002. Total interest, dividends, other investment income and net securities lending income were \$3.2 billion, which approximated the \$3.3 billion of income recorded in fiscal 2001.

The most recent actuarial valuation for the fiscal year ended June 30, 2001, indicates that the DB Program is underfunded, with 98% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2001. This is a decrease of 12% from the 110% funded status estimated in the June 30, 2000 actuarial valuation. The amount by which the STRP actuarial benefit liabilities exceeded actuarial assets was \$2.2 billion at June 30, 2001. The decrease in funding status in fiscal 2001 is mainly attributable to new benefits enacted, the investment return being less than the assumed return of 8.0% and total teacher payroll increases that were in excess of the assumed rate of 4.25%. The findings of the most recent actuarial valuation indicates that expected future revenue for the DB Program is expected to be sufficient to finance its obligations including amortization of the unfunded status by 2030.

Voluntary Investment Program (VIP). The VIP is a tax-deferred defined contribution plan and meets the requirements of the Internal Revenue Code, Section 403(b). Administrative services are provided by CitiStreet, L.L.C. The VIP benefits are the sum of the contributions and investment earnings credited to the member's account at the time of retirement, disability or termination of employment. The VIP is designed to offer members an opportunity to supplement their pension benefits. The VIP's June 30, 2002 investments and net assets each increased by \$4.9 million or 8.6%. Contributions by members in fiscal 2002 decreased by \$0.3 million or 1.8% while investment losses in fiscal 2002 increased by \$1.1 million or 20.8% due to a downturn in the domestic equity market. Deductions from the VIP increased by \$0.5 million or 17.2% to \$3.4 million primarily due to higher member withdraws.

Teachers' Health Benefits Fund (THBF). The THBF is an employee benefit trust fund created to administer health benefit programs for members of the California State Teachers' Retirement System. The Medicare Premium Payment Program is the only program within the fund. This program is designed to pay Medicare Part A premiums and surcharges and Part B surcharges for members meeting certain eligibility criteria. This program is funded on an as needed basis from current employer contributions, which increased by \$14.3 million or 297% to \$19.1 million during fiscal 2002. Benefits of \$21.5 million were paid in fiscal 2002. There were no benefits paid in the prior year. The assets of the THBF are invested in the State of California's Surplus Money Investment Fund and earned \$0.1 million in interest income during fiscal 2002.

California State Teachers' Retirement System

Management's Discussion and Analysis

As of June 30, 2002

Teachers' Replacement Benefit Program Fund (TRBPF). The TRBPF is a replacement pension benefit plan established to pay the portion of annual benefits that exceed the annual limitations under Section 415 of the Internal Revenue Code of 1986 (26 U.S.C. Section 415). This benefit program is funded from current employer contributions on an as needed basis. Contributions of approximately \$13,000 were received and paid as benefits during fiscal 2002.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM SUMMARY FINANCIAL INFORMATION

Net Assets

(Dollars in Thousands)

	2002	2001	PERCENTAGE CHANGE
ASSETS			
Invested Assets ¹	96,512,286	102,428,165	(6)%
Cash and Cash Equivalents	69,061	65,187	6 %
Receivables	2,036,305	3,850,195	(47)%
Other Assets	873	1,914	(54)%
TOTAL ASSETS	98,618,525	106,345,461	(7)%
LIABILITIES			
Benefits in Process of Payment	425,339	84,067	406 %
Investment Settlement	969,034	2,859,235	(66)%
Other Liabilities ¹	450,956	203,022	122 %
TOTAL LIABILITIES	1,845,329	3,146,324	(41)%
TOTAL NET ASSETS	96,773,196	103,199,137	(6)%

¹ Excludes offsetting entries from Securities Lending Collateral and Obligation.



California State Teachers' Retirement System

Management's Discussion and Analysis

As of June 30, 2002

Change in Net Assets

(Dollars in Thousands)

	2002	2001	PERCENTAGE CHANGE
ADDITIONS			
Member/Participant	1,891,493 ²	1,853,815 ²	2 %
Employer	1,874,548 ³	1,758,290 ³	7 %
State	915,825	946,194	(3)%
Investment / Other	(6,308,713)	(10,236,664)	38 %
TOTAL ADDITIONS	(1,626,847)	(5,678,365)	71 %
DEDUCTIONS			
Benefit Payments	4,523,167	3,954,282	14 %
Refund of Contributions	76,579	79,765	(4)%
Administrative Expenses	64,534	55,334	17 %
TOTAL DEDUCTIONS	4,664,280	4,089,381	14 %
INCREASE (DECREASE) IN NET ASSETS	(6,291,127)	(9,767,746)	36 %

² Approximately \$4.4 million of 2001 member contributions have been included in 2002 member contributions for this analysis to account for timing differences.

³ Approximately \$130.4 million of 2001 employer contributions have been included in 2002 employer contributions for this analysis to account for timing differences.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide a general overview of the System's finances. For questions concerning any information in this report or for additional information contact the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

California State Teachers' Retirement System
Combined Statements of Fiduciary Net Assets
As of June 30, 2002
With reporting entity totals as of June 30, 2002 and 2001
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2002	2001
Assets						
Investments, at fair value:						
Short-term	\$ 2,388,047	\$ 25,120	\$ 1,199	\$ -	\$ 2,414,366	\$ 2,309,369
Debt securities:						
Domestic	27,418,057	1,649	-	-	27,419,706	28,889,828
International	-	10	-	-	10	42
Equities:						
Domestic	36,892,653	32,495	-	-	36,925,148	39,879,677
International	20,293,719	2,311	-	-	20,296,030	21,586,122
Alternative	4,253,767	-	-	-	4,253,767	4,489,768
Real estate	5,203,259	-	-	-	5,203,259	5,273,359
Securities lending collateral	13,325,351	-	-	-	13,325,351	17,727,789
Total investments	109,774,853	61,585	1,199	-	109,837,637	120,155,954
Cash and cash equivalents	69,060	-	1	-	69,061	65,187
Receivables:						
Investments sold	447,470	6	-	-	447,476	1,030,408
Foreign currency exchange contracts	612,459	-	-	-	612,459	1,728,543
Interest and dividends	447,560	120	-	-	447,680	492,461
Member/employer and other	527,662	431	597	-	528,690	598,783
Total receivables	2,035,151	557	597	-	2,036,305	3,850,195
Other assets	873	-	-	-	873	1,914
Total assets	\$ 111,879,937	\$ 62,142	\$ 1,797	\$ -	\$ 111,943,876	\$ 124,073,250
Liabilities						
Payable for investments purchased	\$ 313,293	\$ 12	\$ -	\$ -	\$ 313,305	\$ 1,175,151
Payable for foreign currency exchange contracts	655,729	-	-	-	655,729	1,684,084
Benefits in process of payment	425,240	-	99	-	425,339	84,067
Other liabilities	450,864	63	29	-	450,956	203,022
Securities lending collateral	13,325,351	-	-	-	13,325,351	17,727,789
Total liabilities	15,170,477	75	128	-	15,170,680	20,874,113
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Schedule I)	\$ 96,709,460	\$ 62,067	\$ 1,669	\$ -	\$ 96,773,196	\$ 103,199,137

The accompanying notes are an integral part of these financial statements.



California State Teachers' Retirement System
Combined Statements of Changes in Fiduciary Net Assets
For the year ended June 30, 2002
With reporting entity totals for the years ended June 30, 2002 and 2001
(Dollars in Thousands)

	State Teachers' Retirement Plan	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Reporting Entity Totals	
					2002	2001
Additions						
Contributions:						
Members	\$ 1,872,647	\$ 14,472	\$ -	\$ -	\$ 1,887,119	\$ 1,858,189
Employers	1,725,035	-	19,060	13	1,744,108	1,888,730
State of California	915,825	-	-	-	915,825	946,194
Total contributions	4,513,507	14,472	19,060	13	4,547,052	4,693,113
Investment (loss) income:						
Net depreciation in fair value of investments	(9,370,726)	(8,162)	-	-	(9,378,888)	(13,467,641)
Interest, dividends and other investment income	3,063,844	2,004	118	-	3,065,966	3,246,084
Securities lending income	463,821	-	-	-	463,821	1,037,286
Less investment expenses:						
Cost of lending securities	(374,092)	-	-	-	(374,092)	(967,581)
Other	(80,058)	-	-	-	(80,058)	(85,226)
Net investment (loss) income	(6,297,211)	(6,158)	118	-	(6,303,251)	(10,237,078)
Other (expense) income	(5,491)	-	31	(2)	(5,462)	414
Total additions	(1,789,195)	8,314	19,209	11	(1,761,661)	(5,543,551)
Deductions						
Retirement, death and survivor benefits	4,244,189	453	21,536	13	4,266,191	3,764,894
Refunds of member contributions	74,025	2,554	-	-	76,579	79,765
Purchasing power benefits	256,976	-	-	-	256,976	189,388
Administrative expenses	63,785	372	377	-	64,534	55,334
Total deductions	4,638,975	3,379	21,913	13	4,664,280	4,089,381
Net (decrease) increase	(6,428,170)	4,935	(2,704)	(2)	(6,425,941)	(9,632,932)
Net assets held in trust for pension benefits:						
Beginning of year	103,137,630	57,132	4,373	2	103,199,137	112,832,069
End of year	\$ 96,709,460	\$ 62,067	\$ 1,669	\$ -	\$ 96,773,196	\$ 103,199,137

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program and the Replacement Benefits Program as described below. These plans and programs were established and administered by those sections of the State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature. The System is a component unit of the State of California. These financial statements include only the accounts of the System. The System's financial statements are included as a fiduciary fund in the financial statements of the State of California. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

State Teachers' Retirement Plan (STRP)

The State Teachers' Retirement Plan (STRP) is comprised of three programs, the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program (DBS Program) and the Cash Balance Benefit Program (CB Benefit Program). The assets of the STRP are held for the exclusive purpose of providing benefits to members and beneficiaries of the DB Program, the DBS Program and the CB Benefit Program and defraying reasonable expenses of administering the STRP and the System.

STRP Defined Benefit Program (DB Program)

The DB Program is a defined benefit pension plan which operates under the Internal Revenue Code (IRC). At June 30, 2002, there were approximately 1,200 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a non-employer contributor to the STRP. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2001, membership consisted of:

Active members:	
Vested	243,904
Nonvested	184,837
Inactive members	87,146
Retirees and benefit recipients	170,972
Total members, retirees and beneficiaries	<u>686,859</u>

Information as of June 30, 2002, will not be available prior to December 2002.



California State Teachers' Retirement System

Notes to the Basic Financial Statements

The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions include:

After five years of credited service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service. Retirements after age 60 are subject to a factor which increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional 0.2% of final compensation. In no event shall the total benefit factor exceed 2.4%.

Final compensation is defined as the highest average annual compensation during any period of twelve consecutive months for members who retire on or after January 1, 2001 with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service.

Members with 30 or more years of credited service who retire on or after January 1, 2001, receive a longevity bonus based on the number of years of credited service exceeding 30 years, if at least 30 years of service is credited prior to January 1, 2011.

After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.

A family benefit is available if an active member died and had at least one year of credited service.

Members' accumulated contributions are refundable with interest upon separation from the System. For the year ended June 30, 2002, the rate of interest credited to members' accounts is 6.0%.

Purchasing power protection is provided to those benefit recipients whose purchasing power has been reduced below certain levels. The purchasing power protection is funded by a combination of School Lands Revenue and State General Fund (General Fund) contributions to the Supplemental Benefit Maintenance Account (SBMA). School Lands Revenue is appropriated pursuant to Public Resources Code Section 6217.5 from the use of school lands. The SBMA provides annual distributions (in quarterly payments) to retired and disabled members, and beneficiaries in order to restore purchasing power to a minimum of 80% of the initial monthly allowance. The State's contributions for the year ended June 30, 2002, were sufficient to meet the purchasing power obligations.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

Required Contributions

Required member and employer contribution rates are set by the Teachers' Retirement Law.

Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the DB Program is as follows:

- | | | |
|---------------------|---|--|
| Members | - | 6% of applicable member earnings through December 31, 2010, increasing to 8% thereafter. |
| Employers | - | 8.25% of applicable member earnings. |
| State of California | - | Beginning July 1, 1999, under Education Code Section 22955, the General Fund transferred annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements effective January 1, 1999. The enactment of Chapter 1021, Statutes of 2000 (AB 2700) provided for a reduction in such funding from the General Fund to a factor of 2.5385% beginning July 1, 2000. The funding was further reduced to 1.9750% beginning July 1, 2001, and effective through June 30, 2003. Beginning July 1, 2003, the rate increases to 2.017% of the member's creditable earnings from the fiscal year ending in the prior calendar year. |

Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded obligation and no normal cost deficit for benefit plans in place as of July 1, 1990. Although there was an unfunded obligation of \$2.2 billion as of the June 30, 2001 actuarial valuation, there was no normal cost deficit and there was no unfunded obligation for benefits in place as of July 1, 1990.

In their most recent actuarial valuation as of June 30, 2001, the System's independent actuaries determined that, at June 30, 2001, the actuarial value of the DB Program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are equivalent to 17.117% of covered payroll and are sufficient to fund normal cost (16.497% of covered payroll) and amortize the actuarial unfunded obligation of \$2.2 billion at June 30, 2001 by 2030. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.



California State Teachers' Retirement System

Notes to the Basic Financial Statements

STRP Defined Benefit Supplement Program (DBS Program)

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension plan that operates within the STRP. All persons who were active members of the DB Program on or after January 1, 2001, are also members of the DBS Program.

Beginning January 1, 2001 and through December 31, 2010, two percent of applicable member earnings are credited to the members' nominal DBS Program accounts. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 6.0% for the year ended June 30, 2002. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

In the actuarial study, which is less in scope than an actuarial valuation, of the DBS Program's assets and liabilities as of June 30, 2001, the System's independent actuaries determined that the actuarial value of liabilities of the new DBS Program exceeded the actuarial value of assets by \$6 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DBS Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

STRP Cash Balance Benefit Program (CB Benefit Program)

The CB Benefit Program, established under Chapter 592, Statutes of 1995 was subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension plan. The CB Benefit Program operates under the IRC and is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position.

Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education and regional occupational programs. A school district, community college district, county office of education, or regional occupational program may elect to offer the CB Benefit Program. Under such election, each eligible employee will automatically be covered by the program, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Participants	-	4% of applicable participant earnings
Employers	-	4% of applicable participant earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2002, there were 25 contributing school districts and 14,553 contributing participants.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

In their most recent actuarial valuation as of June 30, 2001, the System's independent actuaries determined that the actuarial obligation of the CB Benefit Program exceeded the actuarial value of assets by \$1.2 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the CB Benefit Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

Voluntary Investment Program (VIP)

The VIP (formerly STRS 403(b) Program) was established pursuant to Chapter 291, Statutes of 1994. Under the requirements of IRC Section 403(b), the VIP is a tax-deferred defined contribution plan and is open to any employee from the state's school districts, community college districts, county offices of education and regional occupational programs. Contributions to the program are voluntary and are not subject to a minimum limitation, however, the IRC establishes a maximum amount that can be contributed annually. At June 30, 2002, there were 2,981 plan participants and 461 participating employers (school districts).

Administrative services including custody and record keeping are provided by CitiStreet, L.L.C. The investments are comprised of money market, S&P 500, international index, self-managed and participant notes funds.

Teachers' Health Benefits Fund (THBF)

The THBF was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide the Medicare Premium Payment Program to retired members of the DB Program. Beginning July 1, 2001, funds from the THBF are used to pay Medicare Part A premiums for DB Program members who are retired or will retire prior to January 1, 2006, and who meet certain other eligibility criteria.

The THBF is funded as needed, from that portion of the monthly DB Program statutory employer contribution that exceeds the DB Program annual required contribution. Management believes that the current source of THBF funding will be adequate to provide for the statutory THBF benefits.

Teachers' Replacement Benefits Program Fund (TRBPF)

IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) and initially funded during the year ended June 30, 2001, to provide benefits to the members of the System whose defined benefit retirement benefit exceeds IRC limits.

The TRBPF is funded as needed. Monthly employer contributions are received by the TRBPF and paid to members in amounts "equivalent to" the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2002, there were two retirees participating in the TRBPF.



California State Teachers' Retirement System

Notes to the Basic Financial Statements

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of the System are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the System's retirement and benefits programs.

Use of Estimates in the Preparation of Financial Statements

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of 90 days or less. Significant cash equivalents held by the System include repurchase agreements and foreign currency.

Investments

The majority of the securities held in the investment portfolio at June 30, 2002, are in the custody of or controlled by State Street Bank, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages and other investments.

All investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair value is computed by management based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative investments represent interests in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

The System presents, in the combined statements of changes in fiduciary net assets, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales of debt securities, equity securities and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign currency exchange risks and event risks which

California State Teachers' Retirement System

Notes to the Basic Financial Statements

may subject the System to economic changes occurring in certain industries, sectors or geographies.

Foreign Currency Exchange Contracts

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of foreign investments. These foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

Administrative Expenses

The VIP reimburses the STRP for administrative services provided on its behalf. The THBF reimburses the STRP for certain facilities operation expenses provided on its behalf.

Income Taxes

The STRP, THBF and TRBPF are organized as tax-exempt retirement or benefit plans under the IRC. The VIP is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

Investment Expenses

Expenses directly associated with investment management have been included as other investment expenses. Indirect expenses have not been allocated.

Securities Lending Transactions

The System reports securities lent, the cash collateral held as assets, and the related liabilities resulting from securities lending transactions on the combined statements of plan net assets. The System also reports the costs of lending securities as investment expenses on the combined statements of changes in fiduciary net assets.

Reclassification of Prior Year Amounts

Certain amounts in the prior year reporting entity totals have been reclassified to conform with the current year presentation. Such reclassifications had no impact on the net assets held in trust for pension benefits of each of the System's funds.



California State Teachers' Retirement System

Notes to the Basic Financial Statements

New Accounting Pronouncements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements and required supplementary information.

The System adopted GASB Statement No. 34 for the year ending June 30, 2002, which required the System to present Management's Discussion and Analysis (MD&A) as required supplementary information preceding the basic financial statements as well as several changes to the presentation of its basic financial statements:

- ## The statement of net assets, formerly referred to as the combined statements of plan net assets is now referred to as the combined statements of fiduciary net assets.
- ## The statement of changes in net assets, formerly referred to as the combined statements of changes in plan net assets is now referred to as the combined statements of changes in fiduciary net assets.
- ## The financial statements taken as a whole, formerly referred to as the general purpose financial statements, are now referred to as the basic financial statements.

The adoption of GASB Statement No. 34 did not have an impact on the net assets of the System's funds.

3. Cash, Cash Equivalents, and Investments

Cash held in the System's general operating accounts with the State Treasury was approximately \$3.9 million at June 30, 2002. These monies are pooled with the monies of other State agencies and invested by the State Treasurer's Office.

The System's investments are categorized below to give an indication of the category risk level assumed by the System at June 30, 2002, as defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the System's name. Investment pools managed by other governments, mutual funds, investments held by broker-dealers under securities loans, alternative investments and real estate equity investments are not categorized.

California State Teachers' Retirement System

Notes to the Basic Financial Statements

The following table presents cash equivalents and investments held by the System, by type, at June 30, 2002 (dollars in thousands):

Investment Type	Category 1	Category 2	Category 3	Category Rating Not Required	Fair Value
Investments:					
Categorized:					
Short-term investments	\$ 525,806	\$ -	\$ -	\$ 1,888,560	\$ 2,414,366
Debt securities	19,303,266	-	-	1,659	19,304,925
Equity securities	51,695,441	-	-	34,806	51,730,247
Securities lending collateral	13,325,351	-	-	-	13,325,351
Not categorized:					
Alternative investments	-	-	-	4,253,767	4,253,767
Real estate equity investments	-	-	-	5,203,259	5,203,259
Investments held by broker-dealers under securities loans:					
Debt securities	-	-	-	8,114,791	8,114,791
Equity securities	-	-	-	5,490,931	5,490,931
Total investments	84,849,864	-	-	24,987,773	109,837,637
Cash equivalents:					
Repurchase agreements	20,758	-	-	-	20,758
Foreign Currency	44,361	-	-	-	44,361
Total cash equivalents	65,119	-	-	-	65,119
Total cash equivalents and investments	\$ 84,914,983	\$ -	\$ -	\$ 24,987,773	\$ 109,902,756

Short-term investments of the System as of June 30, 2002, are comprised of the following (dollars in thousands):

Surplus Money Investment Fund	\$ 259,393
Commercial paper	399,934
Short-term agencies	118,377
Short-term Investment Fund	1,629,167
Treasury bills	7,495
	<u>\$ 2,414,366</u>

The investment in the Surplus Money Investment Fund (SMIF), administered by the State, represents various investments with average days to maturity of approximately 180 days, and is reported at amortized cost which approximates fair value.

The investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with average days to maturity of approximately 43 days, and is reported at amortized cost which approximates fair value.

The repurchase agreement transactions as of June 30, 2002, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yield is 0.85% with maturity dates through July 1, 2002.



California State Teachers' Retirement System

Notes to the Basic Financial Statements

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign interest-bearing accounts until it is able to be repatriated or expended.

State statutes and Teachers' Retirement Board policies permit the System to lend its securities to broker-dealers and other entities for which collateral is received with a simultaneous agreement to return the collateral for the same securities in the future. STRP has contracted with third party securities lending agents to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by either STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities, respectively, loaned. As of June 30, 2002, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the STRP. Cash collateral is invested in short-term investments, which at year-end have a weighted-average maturity of less than 90 days, and the assets held as collateral are presented in the above table of investments held. STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay STRP for income distributions by the securities' issuers while the securities are on loan.

4. Contingencies

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these litigations is not expected to have a material adverse effect on the System's financial position.

5. Commitments

In connection with the purchase of various partnership interests under its alternative investment portfolio and the real estate portfolio, the STRP has remaining funding commitments of approximately \$4.3 billion and \$0.6 billion, respectively, at June 30, 2002.

The STRP has entered into agreements to guarantee payment of principal and interest on certain debt securities in the event that the primary obligator defaults. The STRP is paid a fee over the term of such agreements, and in the event of default, the STRP could draw on a standby letter-of-credit for repayment. At June 30, 2002, the STRP had commitments of approximately \$1.3 billion expiring through September 2007. Fee income earned by the STRP was approximately \$3.2 million for the year ended June 30, 2002.



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Required Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
June 30, 2002

Schedule I

The information presented in Supplemental Schedules I and II was determined as part of the actuarial valuations at June 30, 2001.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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Defined Benefit Program ⁽²⁾ (dollars in millions):

2002	(1)	(1)	(1)	(1)	(1)	(1)
2001	\$ 107,654	\$ 109,881	\$ 2,227	98 %	\$ 20,585	11 %
2000	102,225	93,124	(9,101)	110 %	18,224	(50)%
1999	90,001	86,349	(3,652)	104 %	17,185	(21)%
1998	77,290	74,234	(3,056)	104 %	15,741	(19)%
1997	67,980	69,852	1,872	97 %	14,521	13 %

Cash Balance Benefit Program ⁽²⁾ (dollars in thousands):

2002	(1)	(1)	(1)	(1)	(1)	(1)
2001	\$ 15,768	\$ 16,938	\$ 1,170	93 %	\$ 97,921	1 %
2000	10,868	10,351	(517)	105 %	70,605	(1)%
1999	5,224	5,001	(223)	104 %	50,426	0 %
1998	790	1,728	938	46 %	18,838	5 %
1997	(393)	164	557	(240)	4,504	12 %

Defined Benefit Supplement Program ⁽³⁾ (dollars in millions):

2002	(1)	(1)	(1)	(1)	(1)	(1)
2001	\$ 207	\$ 213	\$ 6	97 %	\$ 20,585	0.03 %

(1) Beginning July 1, 2001, actuarial valuations are not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations.

(2) Effective January 1, 1999, the Defined Benefit Plan (DB Plan) and the Cash Balance Plan (CB Plan) merged to establish the State Teachers' Retirement Plan (STRP) which includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CB Benefit Program). All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

(3) Effective January 1, 2001, the Defined Benefit Supplement Program (DBS Program) was established as part of the STRP. The information presented above for the DBS Program was subject to an actuarial study only, which is less in scope than a full actuarial valuation.



California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the year ended June 30, 2002 **Schedule II**

The information presented in Supplemental Schedules I and II was determined as part of the actuarial valuations at June 30, 2001. For the year ended June 30, 2002, the DBS Program is funded by member contributions only.

Year Ended June 30	Annual Required Contribution (a)	Contributed By Employers ⁽¹⁾ (b)	Contributed By the State ⁽²⁾ (c)	Total Contributed (b + c)	Percentage Contributed (b + c)/a
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Defined Benefit Program ⁽³⁾ (dollars in millions):

2002	\$ 2,498	\$ 1,851	\$ 385	2,236	90%
2001	1,794	1,749	455	2,204	123%
2000	1,150	1,584	519	2,103	183%
1999	1,473	1,492	209	1,701	115%
1998	1,911	1,419	587	2,006	105%
1997	1,835	1,299	555	1,854	101%

Cash Balance Benefit Program ⁽³⁾ (dollars in thousands):

2002	\$ 3,586	\$ 3,586	\$ -	3,586	100%
2001	3,036	3,036	-	3,036	100%
2000	2,365	2,365	-	2,365	100%
1999	1,561	1,561	-	1,561	100%
1998	772	772	-	772	100%
1997	74	74	-	74	100%

- (1) For DB Program years ended June 30, 1998 and earlier, amounts include employer contributions under Education Code Sections 22950 and 22953. For the years ended June 30, 1999 and thereafter, amounts include employer contributions under Education Code Sections 22950 and 22951. For the year ended June 30, 2000, amount includes employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA) and 22718.
- (2) The DB Program includes state contributions under the Education Code, Section 22955.
- (3) Effective January 1, 1999, the DB Plan and the CB Plan merged to establish the STRP which includes the DB Program and the CB Benefit Program. All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the year ended June 30, 2002 **Schedule II (Continued)**

Additional information as of the June 30, 2001, actuarial valuation is as follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional Unit Credit
Amortization Method	Level percent of payroll	Not applicable
Amortization Period	Open	Not applicable
Remaining Amortization Period	29 - Years	Not applicable
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	8.00%
Interest on accounts	6.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.50%	3.50%
Post-retirement benefit increases	2.00% simple	Not applicable

The DBS Program was only subject to an actuarial study, which is less in scope than a full actuarial valuation. The actuarial cost method used for the DBS Program study was the traditional unit credit method. The asset valuation method used for the DBS Program study was the fair market value of net assets method. The assumed investment rate of return and interest on accounts for the DBS Program study were both 8.00%. All other information, as presented above, was not applicable to the study.



Other Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Administrative Expenses
For the year ended June 30, 2002
(Dollars in Thousands)

Schedule III

Personnel services:

Salaries and wages	\$ 24,407
Staff benefits	5,089
Accrued vacations	3,522
Total personnel services	<u>33,018</u>

Operating expenses and equipment:

General expense	1,642
Depreciation expense	133
Printing	1,075
Communications	666
Postage	894
Insurance	10
Travel	246
Training	192
Facilities operations	3,750
Consultants and professional services	5,342
Consolidated data center:	
Consultants and professional services	10,017
Data processing:	
Consultant and professional services	6,823
Software and other	738
Central administrative services	1,571
Equipment	124
Other	1
Total operating expenses and equipment	<u>33,224</u>
Total current year expenses that are budgeted	<u>66,242</u>

Past prior year expenses, net	(2,457)
Total	<u>\$ 63,785</u>

Fund sources:

SBMA/administration expense	\$ 83
Reimbursements	243
Prior-Budget Act,	211
Budget Act, Chapter 106, Statutes 2001	62,645
Legislation, Chapter 802, Statutes 2001	559
Legislation, Chapter 1021, Statutes 2001	44
Total fund sources	<u>\$ 63,785</u>



California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule IV

External equity managers:

Domestic:

Ariel Capital Management	\$ 1,722
Barclays Global Investors	2,459
Brison Partners	2,478
Brown Capital Management Inc.	1,001
Chicago Equity Partners	398
Delaware Investment Advisors	575
Delphi Management, Inc.	987
Denver Investment Advisor Inc.	5,678
DSI International Management	261
First Quadrant	468
Mellon Capital Management	68
NCM Capital Management Group Inc.	505
Putnam Investments	407
Sasco Capital, Inc	3,474
State Street Bank Global Advisors	1,401
TCW Asset Management	485
Total domestic	<u>22,367</u>

International:

Bank of Ireland	2,170
Barclays Global Investors	1,200
Battery March	743
Blackrock International Ltd.	1,039
Brinson Partners	1,403
Capital Guardian Trust	4,078
Delaware International Trust	1,400
Fidelity Management Trust Co.	1,479
Fiduciary Trust International	1,433
Goldman Sachs	1,404
Lazard Freres Asset Management	2,293
Marvin & Palmer Associates Inc.	2,024
Morgan Stanley	1,479
Newport Pacific Management	791
Nicholas Applegate	1,785
Oechsle International Advisors	3,844
Schroder Capital Management Investment, Ltd.	1,482
Scudder Kemper Investments	1,857
State Street Global Advisors	1,714
Total international	<u>33,618</u>
Total external equity managers	<u>55,985</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule IV (Continued)

External fixed income managers	
Hartford Investmentmanagement Company	43
MW Post Advisory Group, LLC	42
Seix Investment Advisors	200
Total external fixed income managers	<u>285</u>
Real estate managers/advisors:	
CB Richard Ellis	5,509
Clarion Partners	1,593
Heitman Capital MGMT LLC	1,549
Lend Lease Real Estate Inv	4,218
Lowe Enterprises	928
MIG Realty Advisors, Inc.	750
SSR Realty Advisors	1,559
Sentinel Realty Advisors	115
Thomas Properties	748
Total real estate managers/advisors	<u>16,969</u>
Advisors and consultants:	
Callan Associates	16
Pathway Capital Management, LLC	1,455
Pension Consulting Alliance	707
The McMahan Group	173
Watson Wyatt Worldwide	23
William Mercer Investments	6
Total advisors and consultants	<u>2,380</u>
Attorneys, master custodian and insurers:	
Cox, Castle & Nicholson	164
Groom Law Group	41
Robert Driver Ins Brokerage	257
State Street Bank & Trust Co.	3,500
Total attorneys, master custodian and insurers	<u>3,962</u>
Other Expenses:	
CSUS Foundation	66
Miscellaneous	124
State Controller's Office	22
State Personnel Board	1
Stephen Teale Data Center	36
Travel	228
Total other expenses	<u>477</u>
Total investment expenses from continuous appropriation	<u>\$ 80,058</u>



California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule V

Individual or Firm	Commission/ Fee	Nature of Service
Consulting and professional services:		
Alameda County Office of Education	\$ 92	Regional Counseling Services
California State University Foundation	233	Consulting Services
Campbell Union High School District	174	Regional Counseling Services
Carroll & Scully, Inc.	10	Legal Services
Contra Costa County Office of Education	99	Regional Counseling Services
Department of General Services	22	Legal Services
Department of Justice	130	Legal Services
Dr. Lindle Hatton	37	Consulting Services
EFL Associates	65	Consulting Services
Fresno County Office of Education	75	Regional Counseling Services
Goldfarb & Associates	19	Vocational Assessments and Reports
Hogan & Hartson	196	Advocate and Legal Representation
Howard, Phillips & Andersen	10	Legal Services
Kern County Superintendent of Schools	97	Regional Counseling Services
Liebman & Associates	30	Vocational Assessments and Reports
Los Angeles County Office of Education	144	Regional Counseling Services
Los Angeles County Supt. Of Schools	518	Regional Counseling Services
Maria Caseillas	19	Vocational Assessments and Reports
Merced County Office of Education	33	Regional Counseling Services
Milliman USA	180	Actuarial Services
Orange County Department of Education	181	Regional Counseling Services
PricewaterhouseCoopers LLP	96	Audit and Consulting Services
San Bernardino County Office of Education	266	Regional Counseling Services
San Diego County Office of Education	402	Regional Counseling Services
San Francisco County Office of Education	47	Regional Counseling Services
San Joaquin County Office of Education	88	Regional Counseling Services
San Juan Unified School District	151	Regional Counseling Services
San Mateo-Foster School District	79	Regional Counseling Services
Santa Barbara County Office of Education	89	Regional Counseling Services
Santa Cruz County Office of Education	79	Regional Counseling Services
Shasta County Office of Education	123	Regional Counseling Services
Solano County Office of Education	67	Regional Counseling Services
Sonoma County Office of Education	89	Regional Counseling Services
Stanislaus County Office of Education	50	Regional Counseling Services
State Controller's Office	962	Various Financial Services
Superior Rehabilitation Services	25	Vocational Assessments and Reports
Towers & Perrin	40	Consulting Services
Tulare County Superintendent of Schools	51	Regional Counseling Services
Ventura County Superintendent of Schools	57	Regional Counseling Services
Visual Communications	35	Consulting Services
W.O.B. Management	13	Vocational Assessments and Reports
Other	169	Various Services under \$10
	<u>5,342</u>	

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule V (Continued)

Individual or Firm	Commission/ Fee	Nature of Service
Data Processing:		
California Systems Consultants	53	Data Processing
Dapru, Incorporated	92	Data Processing
Direct Applications, Inc.	18	Data Processing
Eclipse Solutions	208	Data Processing
Inforce, Inc.	44	Data Processing
Information Technology	243	Data Processing
International Network	198	Data Processing
Key Municipal Finance	96	Data Processing
Nanran	495	Data Processing
Net Incomm Incorporated	466	Data Processing
NFP Accounting	87	Data Processing
Norrisoft	16	Data Processing
Pilot Computer Systems	156	Data Processing
Sapphire Technologies	94	Data Processing
Science Applications	93	Data Processing
Sierra Metrics, Inc	312	Data Processing
Software AG, Inc.	468	Data Processing
Software House International	36	Data Processing
Steelpoint Technologies	61	Data Processing
Synergy Consulting, Inc.	22	Data Processing
Tetra Corporation Services	19	Data Processing
Visionary Integration	894	Data Processing
Worldgroup Consulting	2,424	Data Processing
Wright On-Line Systems	187	Data Processing
Other	41	Various Services under \$10
	<u>6,823</u>	
Consolidated Data Center:		
Health and Welfare Data Center	17	Data Processing
Stephen P. Teale Data Center	10,000	Data Processing
	<u>10,017</u>	
Total consultant and professional services expenses	<u>\$ 22,182</u>	



California State Teachers' Retirement System
Voluntary Investment Program
Schedule of Administrative Expenses
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule VI

CitiStreet, L.L.C. administrative fees	\$ 347
State Teachers' Retirement Plan sponsor fee	<u>25</u>
Total	<u>\$ 372</u>

California State Teachers' Retirement System
Teachers' Health Benefits Fund
Schedule of Administrative Expenses
For the Year Ended June 30, 2002
(Dollars in Thousands)

Schedule VII

Personnel services:

Salaries and wages	\$ 170
Staff benefits	40
Accrued vacations	23
Total personnel services	<u>233</u>

Operating expenses and equipment:

General expense	136
Printing	3
Postage	4
Facilities operations	4
Data processing:	
Software and other	1
Equipment	5
Total operating expenses and equipment	<u>153</u>
Total current year expenses that are budgeted	<u>\$ 386</u>

Past prior year expenses, net	(9)
Total	<u><u>\$ 377</u></u>

Fund sources:

Continuous Appropriation - Chapter 1032 Statutes of 2000	<u>\$ 377</u>
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